

March 25, 1999

Fiscal Year 2000 Appropriation Request

Witnesses appearing before the Committee on Appropriations
Subcommittee on the Departments of Labor,
Health and Human Services, Education,
and Related Agencies
U.S. House of Representatives

Gail R. Wilensky, Ph.D
Chair
Medicare Payment Advisory Commission

Accompanied by:
Murray N. Ross, Ph.D.
Executive Director

MEDICARE PAYMENT ADVISORY COMMISSION

Statement by

Gail R. Wilensky, Ph.D.
Chair

on

Fiscal Year 2000 Appropriation Request

Mr. Chairman and Members of the Committee:

I am Gail Wilensky, Chair of the Medicare Payment Advisory Commission (MedPAC). With me is Murray Ross, the Commission's Executive Director. We are pleased to be here today to discuss the Commission's work and to present our appropriation request for fiscal year 2000.

In brief, MedPAC is requesting \$7.0 million, the same level of funding that was appropriated for 1999. My testimony today will discuss MedPAC's legislative mandate, our work in fulfillment of that mandate during fiscal year 1999, the work we have planned in fiscal year 2000, and the resources we will need to pursue that work.

Legislative Mandate

Congress established the Medicare Payment Advisory Commission under the Balanced Budget Act (BBA) of 1997 (P.L. 105–33) to provide the Congress with analysis of and recommendations on policies affecting the Medicare program. The BBA terminated the Physician Payment Review Commission (PPRC) and the Prospective Payment Assessment Commission (ProPAC) and transferred the assets, staff, and fund balances of both Commissions to MedPAC on November 1, 1997.

The Commission is currently composed of 15 members, who are appointed to three-year terms by the Comptroller General. By law, Commissioners are appointed to represent diverse points of view, including those of health care providers, payers, consumers, and employers, and to bring expertise in health economics and biomedical and health services research (see Table 1 for a listing of the Commission’s members and their affiliations).¹

The Commission is assisted in its work by an Executive Director and professional research and administrative staff. Our professional staff have expertise in health economics, statistics, public policy, public health, hospital administration, and medicine.

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Effective May 1, 1999 the Commission will expand to 17 members, a change enacted in the Omnibus Consolidated Emergency Supplemental Appropriations Act of 1998. This expansion will give MedPAC even wider representation, but will still allow the Commission to function effectively as a unified body.

When specialized data or expertise are needed, the Commission also contracts with government agencies, trade associations, and private research firms.

Within its broad mandate, MedPAC is directed by the BBA to consider specific issues relating to the Medicare program. We are charged with considering:

- payment, risk adjustment, risk selection, quality of care, access to care, and other major issues relating to the implementation and development of the Medicare+Choice program,
- methods to determine and update payments for different types of health services under the traditional fee-for-service Medicare program,
- the impact of payment policies on access to and quality of care for beneficiaries in the traditional program,
- the effect of Medicare payment policies on the broader health care system, and
- the effect of developments outside the program on Medicare.

The BBA directed the Commission to make recommendations to the Congress on Medicare's payment policies by March 1 of each year. MedPAC is required to submit a report to the Congress addressing other issues relating to the Medicare program by June 1

of each year. In addition, the Commission is required to comment on reports submitted by the Secretary of Health and Human Services to the Congress.

The Commission meets about eight times a year to review analyses presented by staff and to develop and discuss its recommendations. These meetings are open to the public, and time is routinely provided for comment by individuals and groups.

Accomplishments During Fiscal Year 1999

MedPAC fulfills its mandate to assist the Congress in improving Medicare policy in a number of ways:

- reports to Congress required by our authorizing legislation or by other laws,
- formal testimony before the authorizing Committees of the House and the Senate,
- formal comments to the Secretary of Health and Human Services on proposed regulations, and
- technical analyses and briefings by Commission staff for Congressional staff.

Statutorily required reports

MedPAC submitted its March 1999 *Report to the Congress: Medicare Payment Policy* on time, and work is well under way on our June 1999 report. This year, MedPAC has two additional mandated tasks. As required under the Omnibus Consolidated Emergency Supplemental Appropriations Act of 1998, we are undertaking an analysis of Medicare beneficiaries' access to home health services, the results of which will be included in our June report. And as required by the BBA, we will submit a report later this year on graduate medical education.

In our March report, MedPAC made recommendations in a number of areas, including:

- the Medicare+Choice program,
- the acute care hospital inpatient prospective payment system,
- payments for facilities exempted from the acute care prospective payments system,
- development of new payment systems for post-acute care providers,
- modification of payment for services provided in ambulatory care facilities,
- continued reform of the Medicare fee schedule for physicians, and
- the composite rate for outpatient dialysis services.

Enactment of the Balanced Budget Act affected each of these areas. For the Medicare+Choice program, inpatient hospital services, and physicians' services, the BBA set out specific payment updates. MedPAC's recommendations here focused on whether those updates were adequate; in general we found them to be so. For post-acute care providers and ambulatory care facilities, the BBA made substantial changes in payment by instituting new payment systems. MedPAC's recommendations in these areas—to the Secretary or to the Congress as appropriate given the stage of development of the new systems—focused on where improvements in these new systems could be made. Finally, the Commission recommended a payment update for dialysis services.

In our June report, the Commission will address quality assurance in Medicare's traditional fee-for-service program, ways to improve the quality of care for beneficiaries with end-stage renal disease and care at the end of life, access to care (with a separate chapter on access to home health services), beneficiaries' financial liability for health care services, and managed care for the frail elderly.

In addition to our published reports, MedPAC is also required to comment on reports to the Congress that the Secretary is required to submit. MedPAC's comments serve an important role in giving the Congress an independent assessment of the issue on which the Secretary is reporting. In March, we commented on the Secretary's report on

prospective payment for home health services; the Commission was generally in agreement with the direction of the policy but expressed concern about whether the Secretary can meet her timetable for implementation. Next month, the Commission will comment on the Secretary's report on the new risk adjustment method being proposed for the Medicare+Choice program.

Testimony

Thus far, the Commission has been asked to testify on four occasions in fiscal year 1999. The Chair testified twice before the Subcommittee on Health of the House Committee on Commerce—once on the Medicare+Choice program and once on the new method of risk adjustment that the Secretary will be implementing for that program. In March, the Chair presented MedPAC's recommendations to the Subcommittee on Health of the House Committee on Ways and Means. Also in March, the Chair testified on the Medicare program and MedPAC's recommendations before the Senate Committee on Finance.

Comments on proposed regulations

Since enactment of the BBA, the Commission has closely followed implementation of the law by the Secretary and has commented on the notices of proposed rulemaking and

interim final regulations issued. Although MedPAC is not required by law to comment on proposed regulations, we do so in cases where we feel that the Congress benefits from having an independent assessment. Further, making comments as the regulations are developed provides the Congress (and the Secretary) with more timely advice than we can provide in our March or June reports. In fiscal year 1998, MedPAC made formal comment on five regulations. To date this year, we have delivered comments on the Secretary's proposal for prospective payment of services provided in hospital outpatient departments. Those comments parallel the recommendations in our March report.

Future Work

Following the completion of our June report, the Commission will begin formulating our research agenda for the coming year. Some of the topics on that agenda are already clear. For example, in the Medicare+Choice program, we will track plan participation and changes in enrollment patterns to determine how withdrawals and cutbacks in service areas announced by plans in late 1998 have affected Medicare beneficiaries. We will also examine the extent to which changes in plan participation have resulted from inadequate payment rates or from other factors. At the request of Congressional staff, we will also analyze the impact of the risk adjustment on payments to health plans.

For the acute care inpatient hospital system, we will continue to monitor trends in hospital payments, costs, and margins. While the most recent data indicate that inpatient margins are at historic highs, those data do not reflect the impact of BBA policies that slowed the growth in payments and reduced payments for certain patients who are transferred to post-acute care facilities. We will also develop a broader measure of hospital performance that accounts for changes in Medicare payment policy to outpatient departments and hospital-owned post-acute care facilities.

In the post-acute care arena, we will monitor the impact of the prospective payment system for skilled nursing facilities, and we will continue to monitor the development and implementation of prospective payment systems for rehabilitation hospitals and home health agencies. We also plan to develop data on episodes that can help us to examine how and whether Medicare's payment policies should be changed to account for substitution in sites of care.

MedPAC will be initiating a major research project on payment for and quality of outpatient dialysis services. Medicare's payments for dialysis have remained essentially unchanged for almost two decades, and although we continue to see entry into the market, many observers have expressed concerns about the quality of care that is available to Medicare beneficiaries with end-stage renal disease. We will look not only

at the adequacy of payment, and appropriate incentives in the current payment system to deliver quality care.

MedPAC's staff are beginning to develop these and other research projects. Commissioners will meet in mid-June to discuss which projects should be given emphasis and will discuss our analytic agenda at a public meeting.

Appropriations Request

For fiscal year 2000, MedPAC is requesting \$7.0 million, the same amount that was appropriated for fiscal year 1999. We propose to allocate funds slightly differently in 2000 than in 1999, with more spending on salaries and benefits for staff and Commissioners and less spending for external research contracts (see Table 2).

We plan to increase spending for salaries and benefits over 1999 levels because we expect to achieve the staff size we need to fulfill our responsibilities to provide the Congress with analysis and recommendations on the many aspects of Medicare policy on which it seeks MedPAC's guidance. Staff departures following the merger of PPRC and ProPAC left us with fewer staff than needed in fiscal 1998, and the Commission allowed \$667,000 in budget authority to lapse. With aggressive recruiting—we have essentially

doubled our staff since then—MedPAC is now near its full complement of staff. Despite a tight labor market for health policy analysts—particularly senior people with extensive knowledge of the Medicare program—we expect to be fully staffed at the beginning of fiscal 2000. Accordingly, we plan to reduce spending for extramural research contracts, as we will be able to handle a larger workload in-house. We will also slightly reduce our spending on commercial contracts; that reflects completion of some one-time projects.

I am happy to respond to any questions you may have.

Table 1. Medicare Payment Advisory Commission Member Affiliation

Member	Affiliation
Gail R. Wilensky, Ph.D., Chair	Project HOPE, Center for Health Affairs Bethesda, MD
Joseph P. Newhouse, Ph.D., Vice Chair	Harvard University Boston, MA
P. William Curreri, M.D.	Strategem of Alabama, Inc. Mobile, AL
Anne B. Jackson, M.A., R.N.	Sarasota, FL
Spencer Johnson	Michigan Health and Hospital Association Lansing, MI
Peter Kemper, Ph.D.	Center for Studying Health System Change Washington, DC
Judith Lave, Ph.D.	University of Pittsburgh Pittsburgh, PA
D. Ted Lewers, M.D.	Private Practice of Medicine Easton, MD
Hugh W. Long, Ph.D., J.D.	Tulane Medical Center New Orleans, LA
William A. MacBain	MacBain & MacBain, LLC Ithaca, NY
Woodrow A. Myers Jr., M.D.	Ford Motor Company Dearborn, MI
Janet G. Newport	PacifiCare Health Systems Santa Ana, CA
Alice Rosenblatt, F.S.A., M.A.A.A.	Wellpoint Health Networks Thousand Oaks, CA
John W. Rowe, M.D.	Mount Sinai—NYU Medical Center and Health Systems New York, NY
Gerald M. Shea	AFL-CIO Washington, DC

**Table 2. Medicare Payment Advisory Commission Budget Authority
(In Thousands)**

Object classification	FY 1998 actual	FY 1999 estimate	change	FY 2000 request
Salaries				
Full-time staff	\$2,042	\$2,425	+\$325	\$2,750
Commissioners	<u>140</u>	<u>140</u>	<u>+42</u>	<u>182</u>
	2,182	2,565	+367	2,932
Benefits	532	629	+90	719
Travel				
Staff	21	25	+6	31
Commissioners	<u>74</u>	<u>100</u>	<u>0</u>	<u>100</u>
	94	125	+6	131
Standard level user charges	393	389	0	389
Mainframe computer	494	700	0	700
Telephone	58	40	+3	43
Postage	<u>34</u>	<u>40</u>	<u>0</u>	<u>40</u>
	587	780	+3	783
Printing and reproduction	315	250	0	250
Computer programming	832	894	+6	900
Research contracts	960	1,042	-412	630
Commercial contracts	200	212	-62	150
Government contracts	95	1	0	1
GSA support	<u>44</u>	<u>58</u>	<u>+2</u>	<u>60</u>
	2,131	2,207	-466	1,741
Supplies	35	30	0	30
Publications	<u>19</u>	<u>25</u>	<u>0</u>	<u>25</u>
	54	55	0	55
Equipment and furnishings	61	15	0	15
Lapsing	<u>667</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	7,015	7,015	0	7,015

Note: Numbers may not add to totals because of rounding.

MEDICARE PAYMENT ADVISORY COMMISSION

Biographical Sketch

Gail R. Wilensky, Ph.D.

Gail Wilensky chairs the Medicare Payment Advisory Commission, and serves as the John M. Olin Senior Fellow at Project HOPE, where she analyzes and develops policies relating to health reform and to ongoing changes in the medical marketplace. In both capacities, she testifies frequently before Congressional committees, acts as an advisor to members of Congress and other elected officials, and speaks nationally and internationally before professional, business and consumer groups.

Previously, she served as Deputy Assistant to President Bush for Policy Development, advising him on health and welfare issues. Prior to that, she was Administrator of the Health Care Financing Administration, overseeing the Medicare and Medicaid programs. Dr. Wilensky is an elected member of the Institute of Medicine, and serves as a trustee of the Combined Benefits Fund of the United Mineworkers of America and the Research Triangle Institute. She is an advisor to the Robert Wood Johnson Foundation and the Commonwealth Fund and is a director on several corporate boards.

Dr. Wilensky received a bachelor's degree in psychology and a Ph.D. in economics at the University of Michigan.

MEDICARE PAYMENT ADVISORY COMMISSION

Biographical Sketch

Murray N. Ross, Ph.D.

Murray Ross is the Executive Director of the Medicare Payment Advisory Commission (MedPAC). MedPAC is the successor to the Prospective Payment Assessment Commission and the Physician Payment Review Commission. Dr. Ross has held this position since February 1998.

Prior to joining MedPAC, Dr. Ross was Chief of the Health Cost Estimates Unit in the Budget Analysis Division of the Congressional Budget Office. In that capacity, he supervised preparation of baseline spending projections and cost estimates for the Medicare and Medicaid programs as well as for other federal civilian health programs. He moved to CBO's Budget Division in 1995, after spending 6 years in the Health and Human Resources Division, where he worked on a variety of issues relating to health care reform and income security.

Dr. Ross received his Ph.D. in Economics from the University of Maryland in 1989.